HEAVILY INDEBTED POOR COUNTRIES (HIPCs) AND GOLD

A provisional report by the World Gold Council

April 1999

Executive Summary

SUMMARY - THE EFFECT OF IMF GOLD SALES ON HIPC COUNTRIES

- Proposals have been made that the IMF should sell some of its gold reserves to help fund its share of debt relief for Heavily Indebted Poor Countries.

- Most HIPC countries are actual or potential gold producers. Gold already plays a major part (accounting for between 5% and 37% of exports) in 9[1] of the 40 countries; this number is likely to rise to at least 14 - one third of the total - in the near future. In all but six of the remaining countries gold plays, or has the potential to play, a smaller but still significant role. If IMF gold sales cause a drop in the price of gold, this will inevitably harm the intended beneficiaries of these sales.

- On current plans, and on conservative assumptions, total annual gold production in all HIPC countries is likely to be approximately 200 tonnes by the year 2000. Nearly all of this gold will be exported generating, at current prices, some $1.5bn per year.

- Most current proposals call for around 5m oz—156 tonnes—of IMF gold to be sold and the proceeds invested in interest-bearing assets. Taking current rates for medium-term US bonds (around 5%) as a guide, this would yield some $70m per year.

- With global monetary authorities holding 34,000 tonnes of gold—around one quarter of all the gold thought to be in existence—financial markets are understandably nervous about the possibility of sales from this source. In the week beginning March 15, the gold price fell by some $9 dollars per oz - or 3% - following statements by Presidents Clinton and Chirac supporting a possible IMF gold sale. This has already reduced HIPC countries' potential earnings by around $45m. If the possibility or materialisation of IMF sales produces a further similar fall the total loss in HIPC export earnings would be around $90m per year - **more than the interest generated from the IMF's sale.**

- In addition a lower gold price will discourage mining development and exploration. There have been several recent examples of proposed projects being abandoned due to the low price of gold, thus removing any potential benefit from the country concerned.

- The current situation differs critically from the late 1970s, when the IMF disposed of 25m oz of gold for a similar purpose. Few of these countries were then significant gold producers, while the gold price was on an upward trend creating a more auspicious climate for the sales.

- Gold has become more important to HIPCs in the last decade. Most have liberalised foreign investment rules and mining codes and many have also improved, often under IMF auspices, their economic management. As a result they have become more attractive to mining companies; both exploration and development have significantly

[1] Nigeria, which is often included in the list of HIPC countries, is excluded from this provisional report.

increased. Thus gold reserves, which earlier were largely unknown or underexploited are now playing, or will shortly play, a major role in many of these countries' economies. In acting this way HIPCs have been responding to the strong recommendations of the international community that they should foster their own self-sufficiency.

- Most HIPCs have a compelling need to develop further sustainable export products. Nearly all run a persistent current account deficit, aggravating an already serious debt problem. In many the value of goods exports is exceeded by that of goods imports even before services and other "invisibles" are taken into account. With limited manufacturing capability export potential is often limited to commodity or commodity-based items. With consumer demand for gold strong—an all time record was reached in the fourth quarter of 1998 despite the effects of the Asian crisis—gold mining should be a sustainable proposition for HIPC countries.

- The development of a gold mining industry can have other benefits in addition to boosting exports. It will attract foreign investment, create jobs and in certain cases cause a previously remote area to be opened up. The benefits of foreign investment to a developing country are well documented. Capital equipment is imported, skills are transferred to the local population, and sound legal, accounting and banking systems and practices become essential. These further encourage economic stability and promote the development of a nascent market economy.

- In addition it should be noted that a number of other developing countries are heavily dependent on gold exports. Non-HIPC developing countries with gold exports thought to account for 5% or more of goods exports include Fiji, Krygyz Republic, Papua New Guinea, Peru, Uzbekistan and Zimbabwe. South Africa is also, of course, heavily dependent on gold exports while remittances from emigrant workers in South Africa's mines are a key element in the economies of Swaziland, Mozambique, Botswana and, in particular, Lesotho.

- If the IMF is to sell some of its gold, it is vital that the Fund considers seriously the effect on HIPCs if the price were to fall. It would be sadly ironic if an effort to help poorer developing countries ended up hurting some of them.

This provisional report attempts to summarise, using official and other reputable sources, available evidence on the actual or potential contribution of gold mining to the 40 HIPC countries. A fuller report is scheduled for publication in May 1999. (Nigeria, which is normally, but not always, included in the HIPC category, is excluded from this provisional report, but will be covered in the forthcoming publication.)

Key gold producers - estimated production and export revenue in 2000

The following table shows possible gold production and export earnings by the year 2000. The projections are based on last-known output data except where there are known plans for further expansion or decline. It is assumed, except where specified, that 90-95% production is exported and that the gold price is similar to present levels (around $285 per oz).

Country	**Projected production** (tonnes)	**Projected export earnings** ($m)	**Basis of assumptions**
Countries where gold is, or is likely to be, at least 5% of exports:			
Bolivia	16	100	Current levels of production and export earnings.
Burkina Faso	5	41	Poura mine scheduled to reach full capacity in 1999; government forecast output in 2000 6.0 tonnes.
DR Congo	9	12	Based on latest reported output and official export earnings. Much output is informal and smuggled out. Formal output and earnings were much higher in peaceful times.
Côte d'Ivoire	4	33	Current output.
Ethiopia	5	41	Some increase over current output assumed. Government expects output to rise to 30 tonnes eventually.
Ghana	69	570	1998 output level.
Guinea	12	99	Allowing for production from new Ashanti mine opened in 1998.
Guyana	13	113	1997 output level.
Mali	22	181	1998 output level - but output likely to expand.
Mauritania	1	8	Much exploration underway but main impact likely to be post-2000
Nicaragua	5	41	Government forecasts suggest output likely to be 6 tonnes by 2000
Sudan	5	41	Current output assumed although prospects for increases in output are considered to be good
Tanzania	20	165	Golden Pride mine opened in February 1999; others to follow. Government forecasts expect 26 tonnes of gold exports by 2001.
Uganda	7	58	Latest known output
Other HIPC countries	5	41	
TOTAL	**198**	**1,544**	